

MINUTES

**BOARD OF DIRECTORS
CITY OF SCOTTSDALE MUNICIPAL PROPERTY CORPORATION
Scottsdale Marriott Suites Old Town
7325 East Third Avenue
Scottsdale, Arizona
January 18, 2011**

Present: Larry Aungst, Chair
Fredda Bisman
Kenneth Harder
Jim Jenkins

Absent: William Schrader

Staff: Lee Guillory
Jeff Nichols
David Smith

Guests: Bill Davis, Piper Jaffray
Scott Ruby, Gust Rosenfeld

1. Call to Order and Roll Call.

Chair Aungst called the regular meeting of the City of Scottsdale Municipal Property Corporation to order at 8:09 a.m. A formal roll call confirmed the members present as stated above.

2. Old Business:

a. Approval of Minutes of the January 19, 2010 Board meeting.

BOARD MEMBER HARDER MOVED TO APPROVE THE JANUARY 19, 2010 CITY OF SCOTTSDALE MUNICIPAL PROPERTY CORPORATION MEETING MINUTES, AS AMENDED. BOARD MEMBER BISMAN SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY BY A VOTE OF FOUR (4) TO ZERO (0). BOARD MEMBER SCHRADER WAS ABSENT.

3. New Business:

a. Review the Audited Financial Statements

Lee Guillory introduced Jeff Nichols, the City Accounting Director. She presented the MPC annual report, noting the external auditors gave a clean opinion on the financial statements.

New bonds worth \$75 million were issued in April for water and sewer projects. About \$46 million of this has been spent

In May 2010, Fitch recalibrated many municipal ratings nationwide. As a result Scottsdale's rating went to AAA. The Standard and Poor's and Moody's ratings of the MPC remained unchanged.

Board Member Harder inquired about the material misstatement in the financial statement mentioned in the management letter, adding that he recognizes that this does not really affect the City's statements. He understands how it happened and the Board needs to ensure that this does not happen again.

Mr. Nichols told the Board that there is a 30-day window to accrue items and the City exceeded that window by a couple of days. Since July has 31 days, a 30-day window does not make sense. The misstatement was due to timing. Because of the dollar amount involved this is considered a material misstatement. Staff is putting in place a methodology to review all the general ledger accounts and accruals. Mr. David Smith, City Treasurer, explained that accruals are done once a year after the financial year end, so this is not something that staff are used to doing on a monthly basis.

b. Discuss potential new bond issues

Mr. Smith stated that he wanted the Board to be aware of things that will affect the freedom and flexibility the City will have to issue MPC debt in the future.

Staff has recommended a change to Financial Policy #29 to the Budget Review Commission. If they agree, it will be forwarded to City Council for adoption. Item D of Financial Policy #29 is intended to conform that policy to match what the voters approved in Proposition 412. This proposition grew out of the City North decision intended to significantly restrict what cities can do in giving money or credit to private parties without receiving a return on that investment.

He summarized that the Charter Review Task Force decided to be a little more restrictive than the City North decision, by adding the language "clearly identified public purpose," and that the City receive "direct consideration substantially equal."

Mr. Smith explained that the impact in the future is if staff comes to the Board with a request to issue MPC debt, the Board should ask staff to elaborate how the proposal is in compliance with the City Charter and financial policies. He recalled that the City had assumed that SkySong was a paying proposition. From now on, the rules are more restrictive. There must be a substantially equal identifiable return on the City's investment.

Board Member Harder noted that the City has purchased land for use by the Barrett-Jackson Classic Car Auction. Mr. Smith stated that projects of this type will likely not be undertaken in the future. Board Member Harder said historically the Board has dealt with issues with the enterprise fund for water and sewer, and the dedicated sales tax for the Preserve Authority. Mr. Smith said these issues would not change.

Board Member Harder expressed support for this change, saying it makes a lot of sense. Mr. Smith said this question was hotly debated by both the Charter Review Task Force and City Council. The City North decision is intended to impact all cities equally and hopefully will level the playing field.

Mr. Scott Ruby of Gust Rosenfeld elaborated that public purpose, not only for Proposition 412 but also constitutionally, is usually bricks and mortar, not a project that is anticipated to create more jobs or bring in more sales tax.

Board Member Harder mentioned the Nordstrom parking structure, saying there was a need for parking and dedicated tax revenues were in place to repay the debt. Nordstrom built the parking structure and received tax credits. He asked how public infrastructure can be built under the new rules.

Mr. Ruby said public parking in downtown areas is always difficult both for cities and developers. That is unquestionably a public purpose. He opined that the City North decision might have been different had the city owned all of the land. In the event, the court's question was how could 12 parking spaces be worth \$92 million?

Board Member Harder said he wanted to make sure the Board understands how not to get trapped. Mr. Ruby said a private developer could still build a parking structure and receive tax credits equal to the value of the construction. However, the City now could not give the developer extra tax credits over and above that amount. He noted that some attorneys in other cities believe that this would be okay as long as there is a contract committing the developer to generate an equal amount of sales tax revenue.

Ms. Guillory stated that staff is still in the five-year planning process. The water and sewer enterprise entity will probably issue MPC bonds in the future, although not in 2011. The tourism entity may issue MPC bonds for some type of tourism related capital project. There is a possible \$15 million bond issuance this year followed by another \$15 million later, to be supported by the additional bed tax that was approved. She explained that the Convention and Visitor Bureau receives half of the bed tax for marketing. The remainder is supposed to be used to promote tourism. It could be used for capital projects.

Mr. Smith elaborated that the voters agreed to raise bed tax from three to five percent starting in July 2010. Half of the funds raised are for destination marketing, for which the CVB is currently responsible, although the City could choose another group to do that. The other half of the bed tax has to be used on tourism. The City has decided that this part of the bed tax is not to go to the General Fund. Last fall City Council tried to define how to spend these monies, approximately \$5 million per year. Some will go to Economic Vitality. Some will fund events. About \$600,000 per year will be spent on debt service. About \$2.5 million is still available for distribution as Council sees fit. Over a period of time, this could support \$30 million in debt. City Council is looking for a capital investment for which bonds could be issued, using the bed tax monies as the designated revenue to repay the bonds. So far this is a debate. ADA accessible parking at WestWorld is one possibility, which would cost an estimated \$250,000. Council is looking at a proposed expansion of WestWorld. He summarized that there may be a proposal to issue MPC bonds for tourism related capital investment to be serviced with the City's portion of the bed tax revenue.

Board Member Harder said he supported this as a way to make investments to support a major industry. Mr. Smith said the WestWorld expansion could bring in another major horse show in the shoulder season. The question is how much will that be worth to the City.

Board Member Harder requested that the listing of the bonds be provided in the same format as the City financial information, broken out by project. Ms. Guillory agreed to do this in the future.

c. Board Member Rotation Vote.

Chair Aungst read out the rotation. He would be nominated as director. Board Member Schrader would become president, Board Member Jenkins would become vice president, Board Member Harder would become secretary, and Board Member Bisman would become treasurer.

THE BOARD MEMBER ROTATION AS PRESENTED WAS APPROVED BY A VOTE OF FOUR (4) TO ZERO (0). BOARD MEMBER SCHRADER WAS ABSENT.

4. Public Comment .

None noted.

5. Adjournment.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 8:39 a.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz

Kenneth Harder, Secretary

William Schrader, President